RESEARCH REPORT

What the 2016 Survey of Consumer Finances Tells Us about Senior Homeowners

Laurie Goodman *Karan Kaul* *Jun Zhu*

November 2017

URBAN INSTITUTE · ELEVATE · THE · DEBATE

ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is dedicated to elevating the debate on social and economic policy. For nearly five decades, Urban scholars have conducted research and offered evidence-based solutions that improve lives and strengthen communities across a rapidly urbanizing world. Their objective research helps expand opportunities for all, reduce hardship among the most vulnerable, and strengthen the effectiveness of the public sector.

Contents

Acknowledgments

This report was funded by Finance of America Reverse (FAR), one of the largest reverse mortgage lenders in the United States. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at www.urban.org/support.

The authors would like to thank all participants at the October 2017 Urban Institute seminar "Seniors and Housing: The Growing and Changing Needs of an Aging Population," for helpful comments and suggestions. A special thanks to Chris Mayer, our discussant on the paper, and to Ed Golding for his insightful comments.

What the 2016 Survey of Consumer Finances Tells Us about Senior Homeowners

Many Americans are concerned they lack enough savings for a comfortable retirement. The postcrisis rebound in the housing and equity markets notwithstanding, only half of American workers say they are confident about their retirement savings (Helman, Copeland, and VanDerhei 2015). Similarly, in Fannie Mae's National Housing Survey of homeowners ages 55 and older, conducted in the second quarter of 2016, 37 percent of respondents were either somewhat concerned (26 percent) or very concerned (11 percent) about their financial situation in retirement (Fannie Mae 2016).

Worries about retirement security are rooted in several factors, such as Social Security changes that shrink the share of preretirement earnings replaced by the program (Munnell and Sundén 2005), rising medical and long-term care costs (Johnson and Mommaerts 2009, 2010), student loan burdens, and the shift from employer-sponsored defined-benefit pension plans that guarantee lifetime income to 401(k)-type defined-contribution plans whose account balances depend on employee contributions and uncertain investment returns (Munnell 2014; Munnell and Sundén 2005). In addition, increased life expectancies require retirement savings to last longer. Many studies predict that under current policies and practices, the next generation of retirees may see their living standards fall during old age (Butrica, Smith, and Iams 2012; Favreault et al. 2012; Munnell, Hou, and Webb 2014; VanDerhei 2011).

But there may be a way to avoid that outcome. Retirees could improve financial security by liquefying home equity to supplement their retirement income or reduce their debt burden. Seniors have a higher homeownership rate than the general population. According to the US Census Bureau, the homeownership rate for seniors ages 65 and older was 78.2 percent in the third quarter of 2017 versus 63.7 percent for the general population.[1]

The homeownership rate exceeds ownership rates for most financial assets among US households. According to the Federal Reserve's 2016 Survey of Consumer Finances (SCF), which was released September 2017 and is the main dataset for this report, 63.7 percent of American households owned their primary residences, but only 52.1 percent had retirement accounts, 19.4 percent had cash-value life insurance policies, 13.9 percent had stocks, and 8.6 percent had savings bonds (Bricker et al. 2017, 1). For most Americans, their principal residence is their most valuable asset, dwarfing the value of other assets. Per the 2016 SCF, the median value of the primary residence for US homeowners was $185,000. In contrast, the median value for US retirement accounts was $60,000, $8,500 for cash-value life insurance, $25,000 for stocks, and $1,000 for savings bonds.

Home equity is thus the largest source of net worth for most homeowners. According to the 2016 SCF, the median value of total assets (including housing) owned by US homeowners of all ages was $341,580. Median net worth (assets minus debt) was $231,420. Net worth is a better measure of financial health because it considers household indebtedness. The median home equity for homeowners was $100,000. But both equity and the share of net worth that comes from home equity vary substantially by age and race. In 2016, for homeowners ages 65 and older, who are the main focus of this report, the median value of all assets (including housing) was $377,900, median net worth was $319,250, and median home equity was $143,500.

White homeowners ages 65 and older had median total assets of $418,300, median net worth of $384,100, and median home equity of $152,000 in 2016. For black homeowners ages 65 and older, the corresponding values were $154,400, $109,360, and $70,000, respectively. For Hispanic homeowners ages 65 and older, the corresponding values were $259,500, $133,700, and $100,000, respectively—greater than those for blacks, but much less compared with whites. When looking at the median share of net worth attributable to housing, white, black, and Hispanic homeowners have 38, 73, and 90 percent of their net worth in housing, respectively.[2] Thus, although elderly black and Hispanic homeowners have fewer assets, less equity, and less net worth than whites do, a larger share of their net worth is in their homes (table 1).

TABLE 1

Median Ratio of Home Equity to Net Worth for Homeowners Ages 65 and Older in 2016, by Race

	10th percentile	25th percentile	50th percentile	75th percentile	90th percentile
White	10%	21%	38%	71%	93%
Black	11%	41%	73%	96%	102%
Hispanic	22%	69%	90%	97%	102%
Other	9%	27%	54%	81%	94%
All	**11%**	**23%**	**43%**	**79%**	**96%**

Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

In general, the lower a household's income, net worth, and liquid net worth,[3] the bigger the share of that household's wealth is in home equity, suggesting the home may be the only viable source of financial security for many households. Extracting a portion of this equity would allow financially constrained elderly households to access cash and smooth consumption. For low-income retirees or those who are financially burdened but own substantial housing wealth, tapping home equity could obviate the need to cut spending on essentials, such as food, health, and medicine. High-income households could leverage equity to modify their homes to improve in-home safety and mobility.

Home equity can be extracted through many mechanisms, primarily Federal Housing Administration (FHA)–insured Home Equity Conversion Mortgages (HECMs), closed-end home equity loans, home equity lines of credit (HELOCs), and cash-out refinancing. Some households may decide to sell their home and buy a smaller, less expensive one or become renters. Despite these options, few retirees tap into home equity, and most who do typically wait until they experience a serious financial shock, such as a substantial medical expense or the death of a spouse (Poterba, Venti, and Wise 2011; Smith, Soto, and Penner 2009; Venti and Wise 2004). Households close to retirement age are disinclined to leverage their home equity. In a survey of homeowners ages 55 and older conducted by Fannie Mae, 80 percent said they were “not at all interested” in tapping into home equity in retirement. Consumer attitudes toward reverse mortgages in particular are discouraging for many reasons (Kaul and Goodman 2017).

At the same time, the amount of home equity held by Americans has increased substantially, especially since the 2013 SCF was released. To better understand how reverse mortgages could improve retirement financial security, Finance of America Reverse, one of the largest reverse mortgage lenders in the country, asked the Urban Institute to undertake a quantitative assessment of the number of borrowers who could benefit from reverse mortgages, how much equity they could extract, and the characteristics of these borrowers along such dimensions as income, race, and wealth. The 2016 SCF allows us to do so using the most up-to-date data available.

Recent Trends in Senior Household Finances

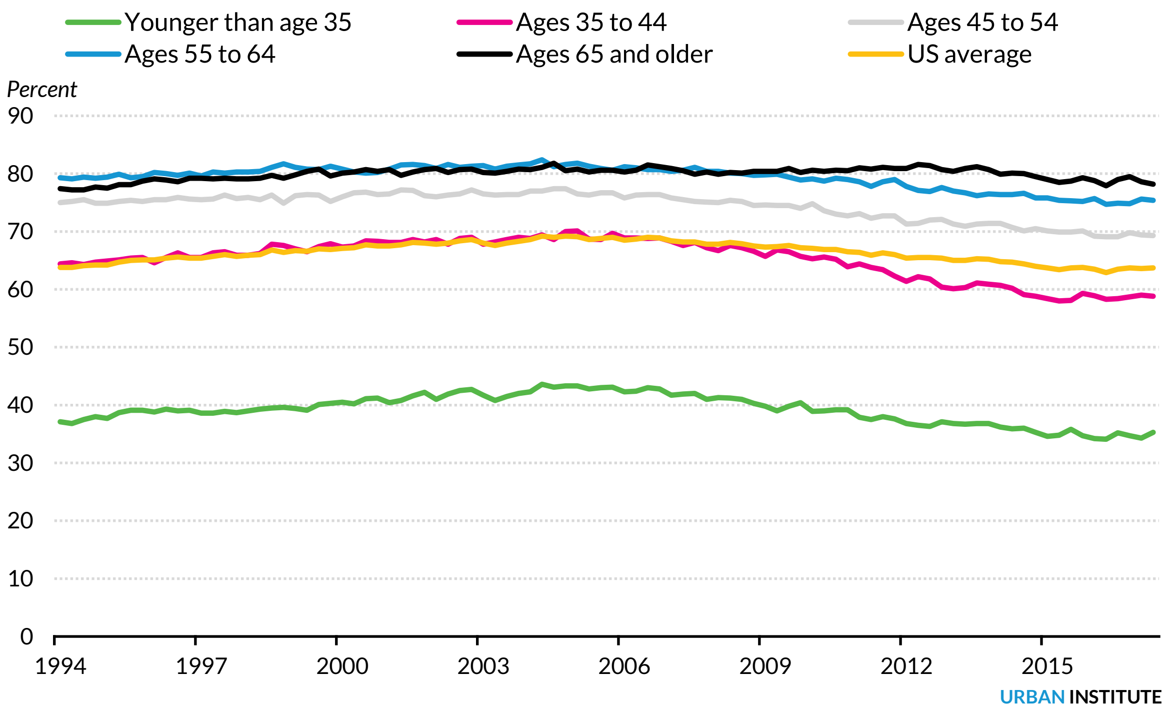
The 2016 SCF reveals several trends about seniors’ current financial condition. How well senior households are doing financially can influence their decision to supplement retirement income by tapping into home equity. All else equal, a household with high income and savings is less likely to have the need to tap into home equity than a household with low income and savings.

Homeownership Rate

Older Americans tend to have a higher homeownership rate than the general population. According to US Census Bureau, the homeownership rate for Americans ages 65 and older is higher than all other age groups, although all age groups have witnessed a decline in homeownership rate in the past decade (figure 1).

FIGURE 1

Homeownership Rate by Age Group



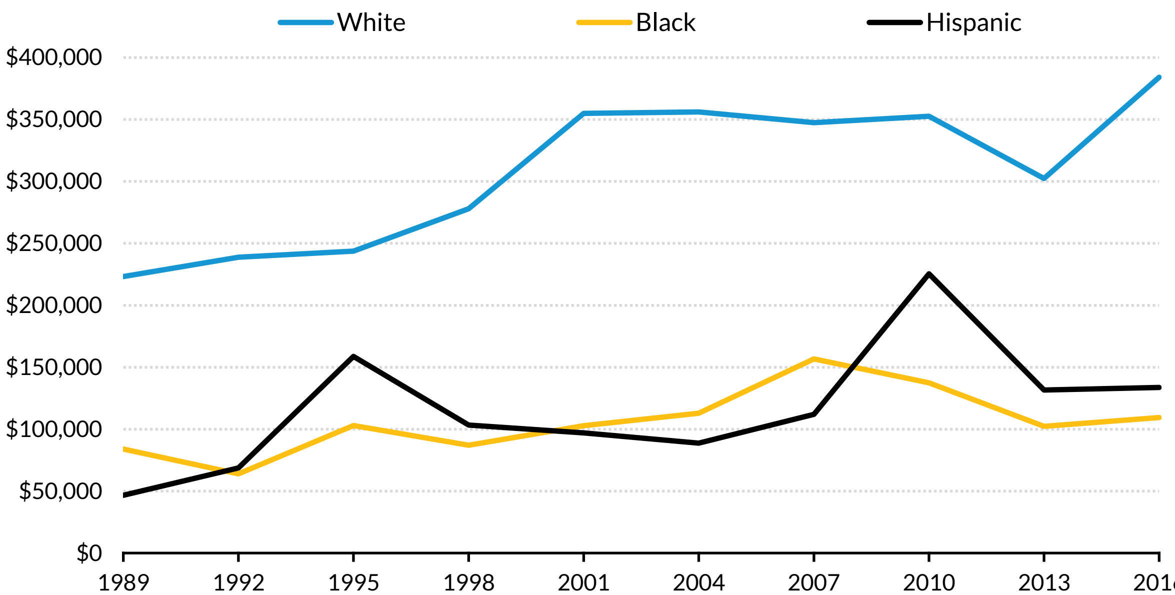
Source: US Census Bureau, "Quarterly Residential Vacancies and Homeownership, Third Quarter 2017," press release CB17-170, October 31, 2017, https://www.census.gov/housing/hvs/files/currenthvspress.pdf.

Net Worth and Home Equity Wealth

Hispanic and black homeowners also lag white homeowners in specific wealth measures, such as home equity and net worth. Per the 2016 SCF, the median net worth for US homeowners ages 65 and older was $319,250 (figure 2). The median net worth for white homeowners ages 65 and older was $384,100, well over three times the median net worth for black homeowners ages 65 and older ($109,360) and just under three times the median net worth for Hispanic homeowners ages 65 and older ($133,700).

FIGURE 2A

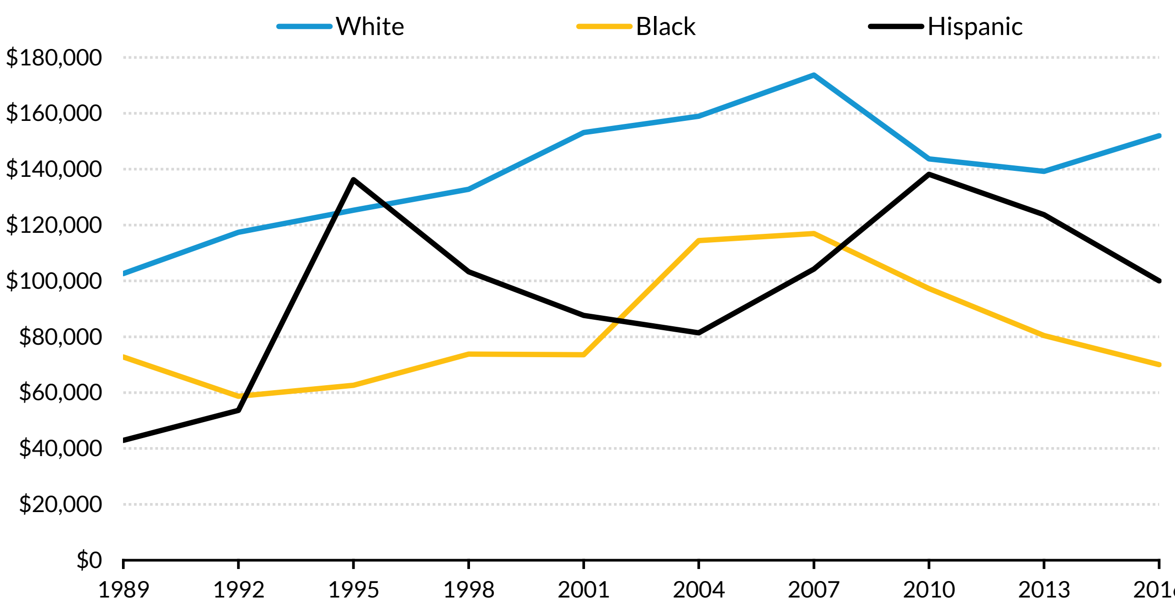
Median Net Worth for Households Ages 65 and Older, by Race



URBAN INSTITUTE

FIGURE 2B

Median Home Equity for Households Ages 65 and Older, by Race



URBAN INSTITUTE

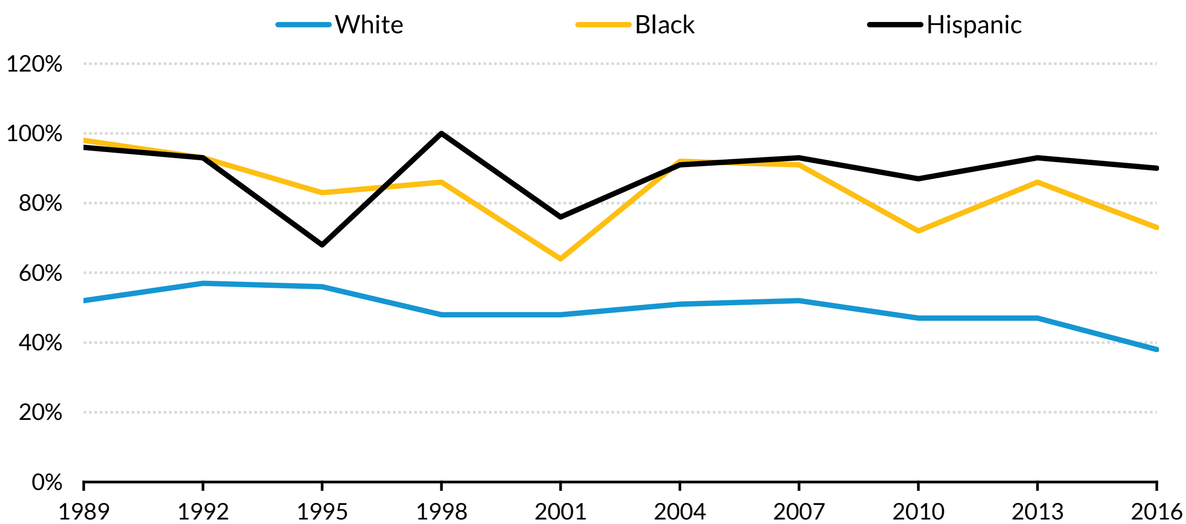
Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).
Note: 2016 dollars.

Similarly, the median home equity for black and Hispanic homeowners ages 65 and older ($70,000 and $100,000, respectively) significantly trailed the median home equity for white homeowners ($152,000). Figure 2 shows the changes in median net worth and home equity for homeowners ages 65 and older by race. One striking observation is that the median home equity for black homeowners was lower in 2016 ($70,000) than it was in 1989 ($72,769), in 2016 dollars. The gains in median net worth for black homeowners are also the lowest among the three racial groups since 1989. Between 1989 and 2016, median net worth increased 72 percent (from $223,213 to $384,100) for whites, 186 percent (from $46,647 to $133,700) for Hispanics, and 30 percent (from $83,964 to $109,360) for blacks.

Home equity wealth accounts for a much larger share of total net worth for elderly black and Hispanic households than it does for elderly white households, and it always has. In 2016, the median ratio of home equity to net worth for black homeowners ages 65 and older was 73 percent. For Hispanic homeowners ages 65 and older, the median ratio was even higher at 90 percent. For white homeowners ages 65 and older, the median ratio was 38 percent. This share has dropped over time for white and black seniors but has been roughly constant for Hispanic seniors (figure 3).

FIGURE 3

Median Ratio of Home Equity Wealth to Net Worth, Ages 65 and Older, by Race



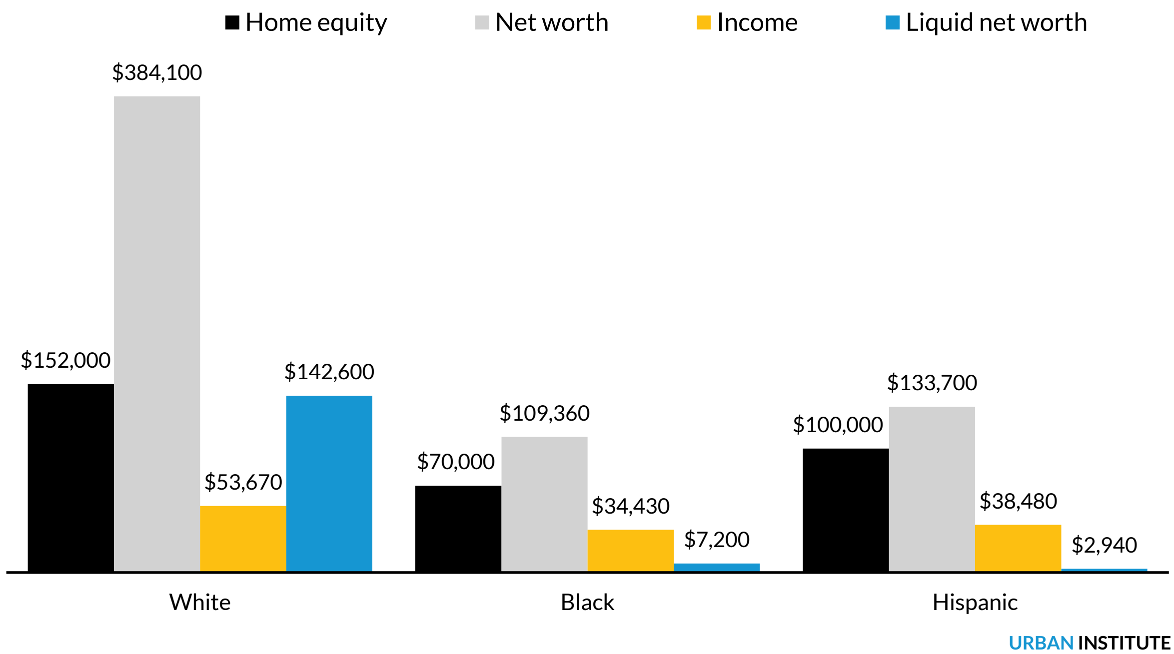
URBAN INSTITUTE

Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

Nonhousing wealth (e.g., cash savings, retirement accounts, stocks, bonds, annuities) comprises a smaller portion of household net worth for elderly black and Hispanic households than it does for white households. Figure 4 shows the median home equity, net worth, income, and liquid net worth for seniors ages 65 and older by race.

FIGURE 4

2016 Wealth Measures for Households Ages 65 and Older, by Race



Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

Note: See the appendix for key wealth measures by distribution of ratio of home equity to net worth.

Although black and Hispanic homeowners lag white homeowners along all four measures, the difference in liquid net worth is especially striking. For black homeowners, median home equity, median net worth, and median income are 46, 28, and 64 percent of the corresponding measures for white homeowners. But for liquid net worth, the median for black homeowners ($7,200) is only 5 percent of the median liquid net worth for white homeowners ($142,600). The median liquid net worth for Hispanic homeowners ($2,940) is just 2 percent of the median liquid net worth for white homeowners. Black and Hispanic senior households are disproportionately more likely than white senior households to deplete their savings sooner and may need to tap into their home equity.

Sizing the Senior Home Equity Lending Market

Most households buy a home to live in and raise a family. Consequently, they may not view a home as a financial asset in the same way they view their cash savings or their retirement accounts. A home is the most commonly owned asset in America and the most valuable one, and it can be a critical source of financial security for elderly households with insufficient income and savings. The 2016 SCF allows us to estimate how many such households might exist in the US, how many of them are likely to be financially constrained, and how much home equity they own.

The first step of the estimation exercise is to define the population. There are 26 million homeowner households ages 65 and older in the US. The ones most likely to need to borrow against home equity have low income and low liquid net worth but significant home equity wealth. Using various cutoffs for these variables, we can estimate the size of the senior home equity lending market. The higher the liquid net worth and household income, the lower the need for the household to tap into home equity. But the lower the liquid net worth and income, the greater the need for the household to tap into home equity. Altering these three variables changes the size of the potential market for home equity lending for seniors.

We begin by breaking out the 26 million senior homeowners ages 65 and older into four annual income groups: less than or equal to $20,000 (3.3 million people), between $20,000 and $40,000 (6.8 million), between $40,000 and $60,000 (4.7 million), and more than $60,000 (11 million). We eliminate the top income group, as we assume this group would not need to tap into home equity, and use the other three for this analysis. Within each income bucket, we then alter the median home equity and liquid net worth. Tables 2A, 3A, and 4A show the number of homeowner households ages 65 and older that fit our income, home equity, and liquid net worth criteria, and tables 2B, 3B, and 4B show the aggregate home equity owned by these households.

Tables 2A and 2B size the market for seniors with annual income up to $20,000. The number of households ages 65 and older and with income up to $20,000 is over 3.3 million, and the aggregate home equity wealth owned by these 3.3 million households totals $406.9 billion.

TABLE 2A

Households Earning up to $20,000 a Year, by Home Equity and Liquid Net Worth

Ages 65 and older

	Home Equity						
	≤$10,000	$10,000–$25,000	$25,000–$50,000	$50,000–$100,000	$100,000–$200,000	>$200,000	All
Liquid net worth							
≤$10,000	232,441	144,440	394,952	707,230	387,916	338,930	2,205,909
$10,000–$25,000	64,637	18,956	77,407	166,413	66,995	0	394,408
$25,000–$50,000	6,015	20,550	6,439	103,453	103,437	23,302	263,196
$50,000–$100,000	0	0	6,653	45,551	60,582	18,505	131,291
$100,000–$200,000	0	0	0	9,459	28,503	21,280	59,242
>$200,000	0	0	0	114,067	85,437	59,954	259,458
All	303,093	183,945	485,451	1,146,174	732,869	461,971	3,313,504

TABLE 2B

Aggregate Home Equity Wealth of Households Earning up to $20,000 a Year

Millions of dollars

	Home Equity						
	≤$10,000	$10,000–$25,000	$25,000–$50,000	$50,000–$100,000	$100,000–$200,000	>$200,000	All
Liquid net worth							
≤$10,000	1,054	2,535	16,355	53,463	57,745	113,624	244,776
$10,000–$25,000	314	246	2,960	13,851	9,177	0	26,548
$25,000–$50,000	24	411	322	7,678	16,006	11,795	36,237
$50,000–$100,000	0	0	309	4,054	11,133	6,944	22,440
$100,000–$200,000	0	0	0	662	4,667	8,900	14,229
>$200,000	0	0	0	9,581	9,924	43,208	62,713
All	1,392	3,193	19,946	89,289	108,653	184,471	406,943

Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

Of these 3.3 million households, the ones most likely and able to tap into home equity are those with low liquid net worth but significant home equity. Households with high liquid net worth (assumed to be over $50,000) generally may not need to borrow, and households with less home equity (say, below $100,000) may not be able to extract an adequate amount because of borrowing limits or for other reasons. If we exclude from the 3.3 million households those with liquid net worth above $50,000 and home equity below $100,000, the number of households that could benefit by tapping into their home equity drops to 920,580 (sum of shaded cells in table 2A). The corresponding aggregate home equity held by these borrowers adds up to nearly $208 billion (sum of shaded cells in table 2B).

Table 3A shows similar analysis for households ages 65 and older earning between $20,000 and $40,000 a year. Although this group contains as many as 6.8 million households, those with liquid net worth above $50,000 and home equity below $100,000 are excluded. The remaining households, highlighted in shaded cells, add up to 1.6 million. The corresponding home equity held by these borrowers adds up to $354 billion (sum of shaded cells in table 3B).

TABLE 3A

Households Earning between $20,000 and $40,000 a Year, by Home Equity and Liquid Net Worth

Ages 65 and older

	Home Equity						
	≤$10,000	$10,000–$25,000	$25,000–$50,000	$50,000–$100,000	$100,000–$200,000	>$200,000	All
Liquid net worth							
≤$10,000	224,686	339,026	507,655	873,447	637,117	391,251	2,973,182
$10,000–$25,000	14,788	29,893	249,710	81,470	123,830	126,875	626,567
$25,000–$50,000	84,190	50,210	209,753	132,081	239,733	42,645	758,612
$50,000–$100,000	0	38,664	60,461	112,791	297,687	151,148	660,752
$100,000–$200,000	0	23,120	55,697	351,107	215,166	224,878	869,969
>$200,000	0	99,616	83,474	71,078	335,331	296,302	885,800
All	323,664	580,529	1,166,750	1,621,974	1,848,865	1,233,099	6,774,882

TABLE 3B

Aggregate Home Equity Wealth by Households Earning between $20,000 and $40,000 a Year

Millions of dollars

	Home Equity						
	≤$10,000	$10,000–$25,000	$25,000–$50,000	$50,000–$100,000	$100,000–$200,000	>$200,000	All
Liquid net worth							
≤$10,000	894	6,521	20,097	69,075	92,807	134,361	323,755
$10,000–$25,000	148	459	8,786	6,058	19,373	56,396	91,220
$25,000–$50,000	317	603	8,603	11,690	38,367	12,382	71,962
$50,000–$100,000	0	827	1,746	9,904	43,162	47,402	103,041
$100,000–$200,000	0	555	2,285	27,299	36,621	71,958	138,718
>$200,000	0	1,895	2,933	4,571	49,677	101,440	160,516
All	1,359	10,860	44,451	128,598	280,006	423,939	889,211

Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

Tables 4A and 4B show the same analysis for households ages 65 and older with incomes between $40,000 and $60,000. Using the same criteria for liquid net worth and home equity, this group yields another 810,000 households (table 4A) with an aggregate home equity wealth of $211 billion (table 4B).

TABLE 4A

Households Earning between $40,000 and $60,000 a Year, by Home Equity and Liquid Net Worth

Ages 65 and older

	Home Equity						
	≤$10,000	$10,000–$25,000	$25,000–$50,000	$50,000–$100,000	$100,000–$200,000	>$200,000	All
Liquid net worth							
≤$10,000	100,554	108,677	231,722	195,823	240,294	208,797	1,085,867
$10,000–$25,000	0	22,975	73,708	61,735	121,189	68,977	348,584
$25,000–$50,000	0	124,946	27,591	101,997	115,675	55,745	425,955
$50,000–$100,000	13,437	0	12,688	217,541	287,142	115,744	646,553
$100,000–$200,000	0	30,333	99,408	139,519	333,858	273,094	876,212
>$200,000	0	54,070	32,023	173,064	617,560	493,963	1,370,680
All	113,991	341,002	477,140	889,680	1,715,719	1,216,320	4,753,851

TABLE 4B

Aggregate Home Equity Wealth by Households Earning between $40,000 and $60,000 a Year

Millions of dollars

	Home Equity						
	≤$10,000	$10,000–$25,000	$25,000–$50,000	$50,000–$100,000	$100,000–$200,000	>$200,000	All
Liquid net worth							
≤$10,000	-2,078	1,643	9,380	15,353	33,711	87,761	145,770
$10,000–$25,000	0	289	2,432	5,046	18,739	28,107	54,613
$25,000–$50,000	0	2,428	1,229	7,939	17,164	25,982	54,741
$50,000–$100,000	67	0	528	17,295	42,981	47,987	108,858
$100,000–$200,000	0	516	4,017	12,343	53,745	82,884	153,505
>$200,000	0	1,069	1,121	14,285	91,587	213,299	321,360
All	-2,011	5,944	18,707	72,260	257,927	486,020	838,848

Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

Collectively, the number of households earning up to $60,000 a year, with median liquid wealth less than $50,000 but home equity wealth more than $100,000, is the sum of the shaded cells in tables 2A, 3A, and 4A, which is 3.3 million households, or 13 percent of the 26 million US households ages 65 and older. The combined home equity wealth these households own is more than $775 billion. Even if we assume that households earning $40,000 to $60,000 a year are less likely to tap into home equity, that still leaves 2.5 million homeowners earning less than $40,000 a year (or 10 percent of the 26 million US homeowners ages 65 and older), with a combined home equity wealth of over $560 billion. Additionally, a disproportionately large share of these households will be minorities. Table 5 summarizes the results more succinctly for different income and home equity cutoffs, with a baseline assumption of liquid net worth below $50,000.

TABLE 5A

Potential Size of the Senior Home Equity Lending Market

Number of households

	Home Equity		
	>$100,000	**>$50,000**	**>$25,000**
Income			
≤$20,000	920,580	1,897,676	2,376,474
≤$40,000	2,482,032	4,546,126	5,992,042
≤$60,000	3,292,709	5,716,358	7,495,296

TABLE 5B

Potential Size of the Senior Home Equity Lending Market

Aggregate home equity in billions of dollars

	Home Equity		
	>$100,000	**>$50,000**	**>$25,000**
Income			
≤$20,000	$208	$283	$303
≤$40,000	$562	$724	$781
≤$60,000	$773	$964	$1,034

Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

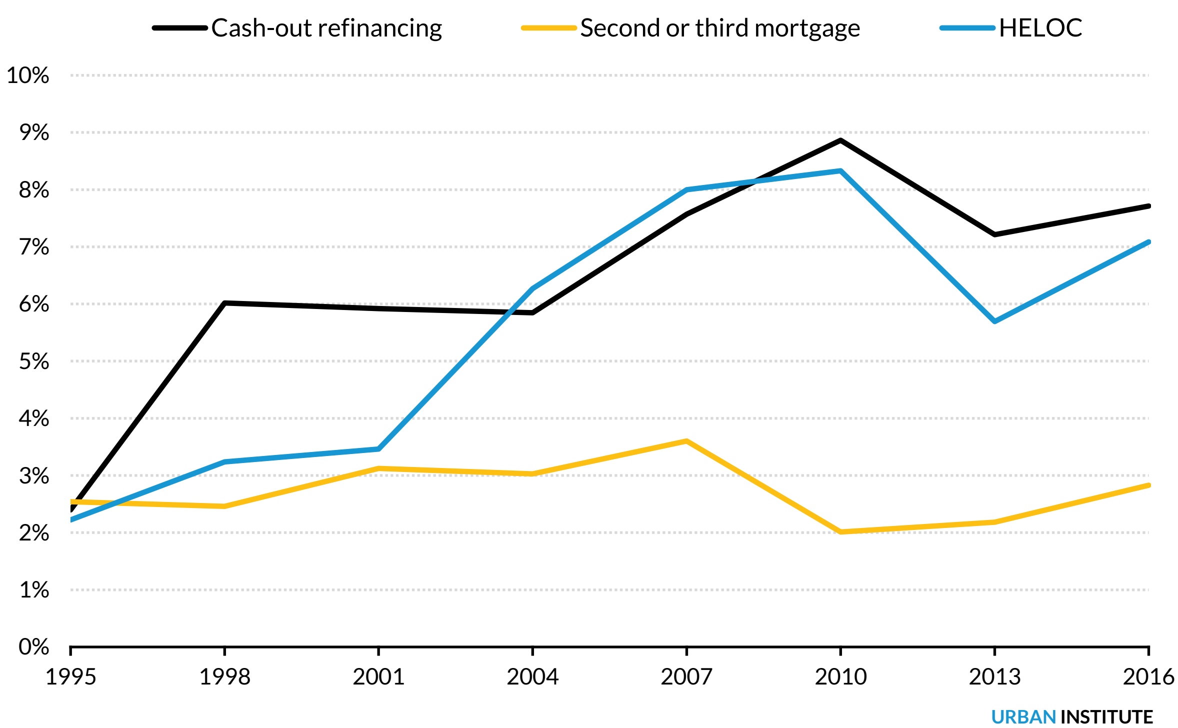
American homeowners ages 65 and older collectively own a staggering amount of home equity wealth that is widely distributed among millions of households. Even if the numbers from tables 2 and 3 were further adjusted downward for such factors as HECM borrowing limits (generally up to 60 percent of a home's value) or the fact that households will not extract all equity, the sheer scale of home equity wealth suggests that home equity lending could be a larger market. Even if just 10 percent of the estimated 3.3 million households tapped into their home equity, that would be 330,000 households, more than six times the current annual HECM endorsement count of roughly 50,000 loans.

Home Equity Extraction to Date Has Been Low

Despite this potential, current rates of home equity extraction are low. Although the SCF dataset does not have information on reverse mortgages, it allows us to measure the use of forward home equity lending products—such as HELOCs, cash-out refinances, and second mortgages—and highlight the characteristics of borrowers who obtain these products. The share of homeowners ages 65 and older who extracted equity through these products is low according to the SCF (figure 5).

FIGURE 5

Share of Homeowners Ages 65 and Older with an Active Home Equity Product

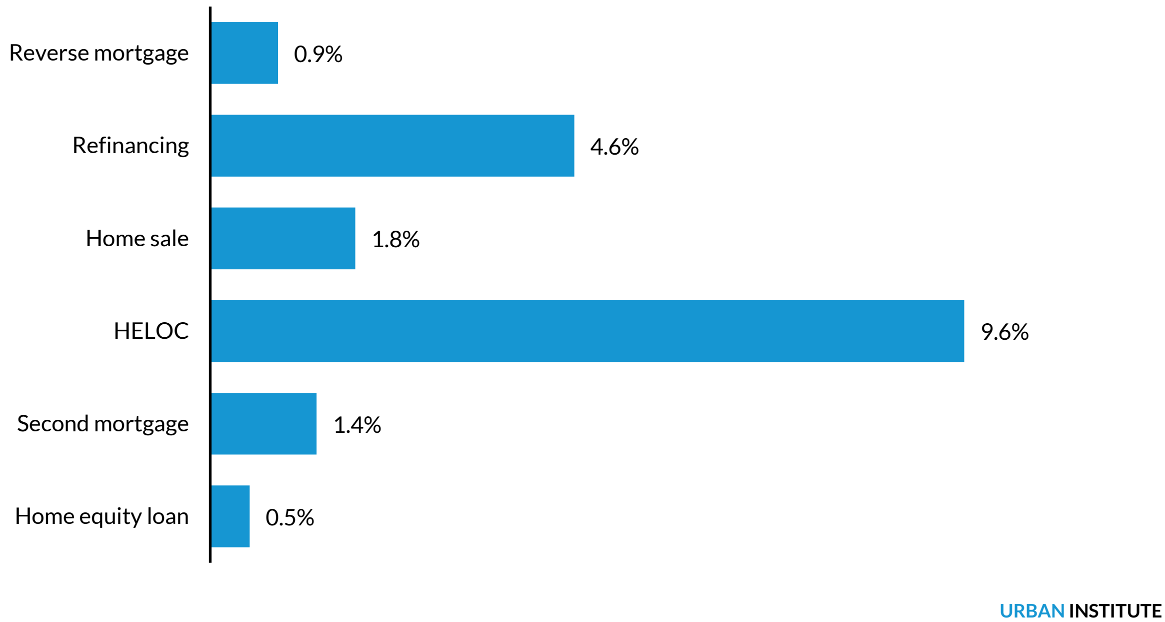


Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).
Notes: HELOC = home equity line of credit. For home equity, HELOCs, and second mortgages, the above shares correspond to respondents reporting having one of these three products active at the time of the survey. For cash-out refinancing, home sales, and reverse mortgages, the period of coverage was the prior two years.

To measure the use of reverse mortgages, we rely on the Health and Retirement Study (HRS), a biennial survey of Americans ages 51 and older conducted by University of Michigan. Per the 2014 HRS (latest data available), only 11.4 percent of owner-occupied households ages 65 and older had an active home equity loan, second mortgage, or HELOC at the time of the survey. In addition, during the two years preceding the 2014 survey, just 1.4 percent tapped into home equity by refinancing their mortgage (cash-out refinance), 1.8 percent accessed equity by selling their home, and 0.9 percent extracted equity through a reverse mortgage (figure 6).

FIGURE 6

Share of Homeowners Ages 65 and Older Who Extracted Home Equity, by Strategy



Source: 2014 Health and Retirement Survey.

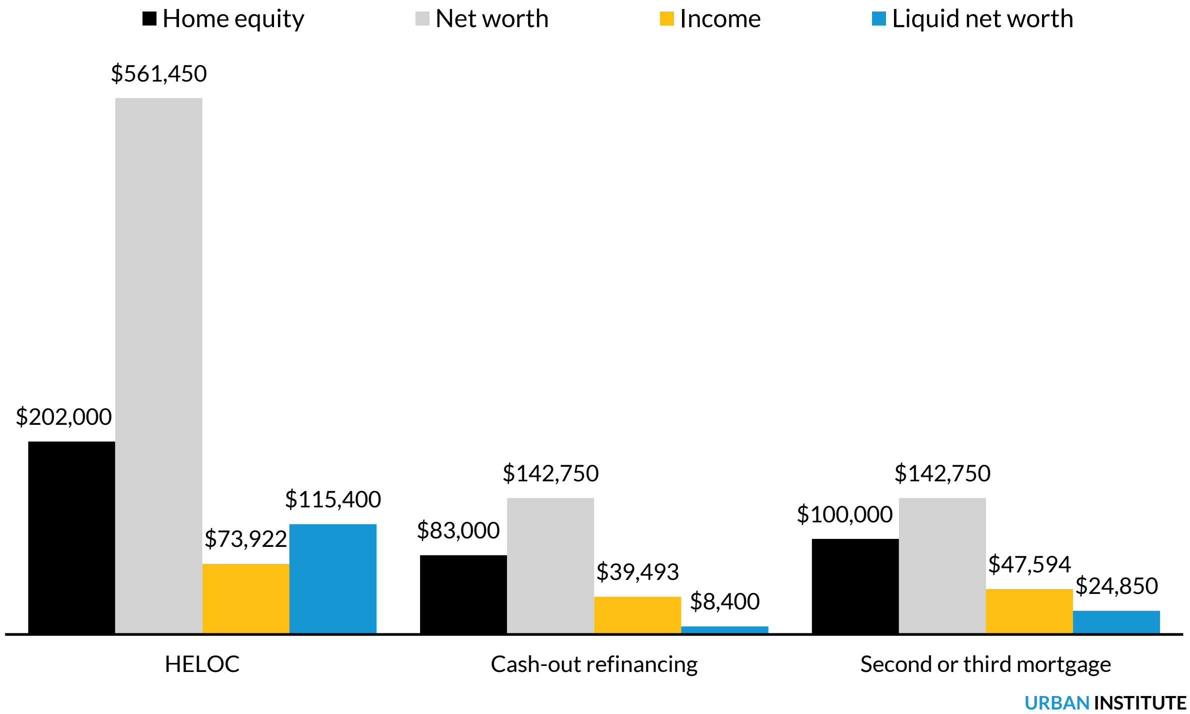
Notes: HELOC = home equity line of credit. For home equity, HELOCs, and second mortgages, the above shares correspond to respondents reporting having one of these three products active at the time of the survey. For cash-out refinancing, home sales, and reverse mortgages, the period of coverage was the prior two years.

These findings are consistent with previous research showing low rates of equity extraction. Using Federal Reserve Bank of New York and Equifax Consumer Credit Panel sample data, as well as the US Department of Housing and Urban Development's HECM origination data, Moulton, Dodini, and coauthors (2015) calculated the equity extraction origination rate for HELOCs, second mortgages, cash-out refinances, and HECMs as a proportion of the population ages 62 and older from 2004 to 2012. Each extraction channel had an origination rate of 4 percent a year or less, with only HELOCs having a rate exceeding 1 percent.

Financial characteristics of borrowers in the SCF dataset who extracted equity indicate that HELOC borrowers are more affluent than borrowers who extract equity through a cash-out refinance or a junior mortgage. Research shows that reverse mortgage borrowers also tend to be less wealthy than borrowers who use HELOCs (Moulton, Haurin, and Shi 2015).

FIGURE 7

2016 Wealth Measures for Households Ages 65 and Older, by Extraction Channel



Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

Note: HELOC = home equity line of credit.

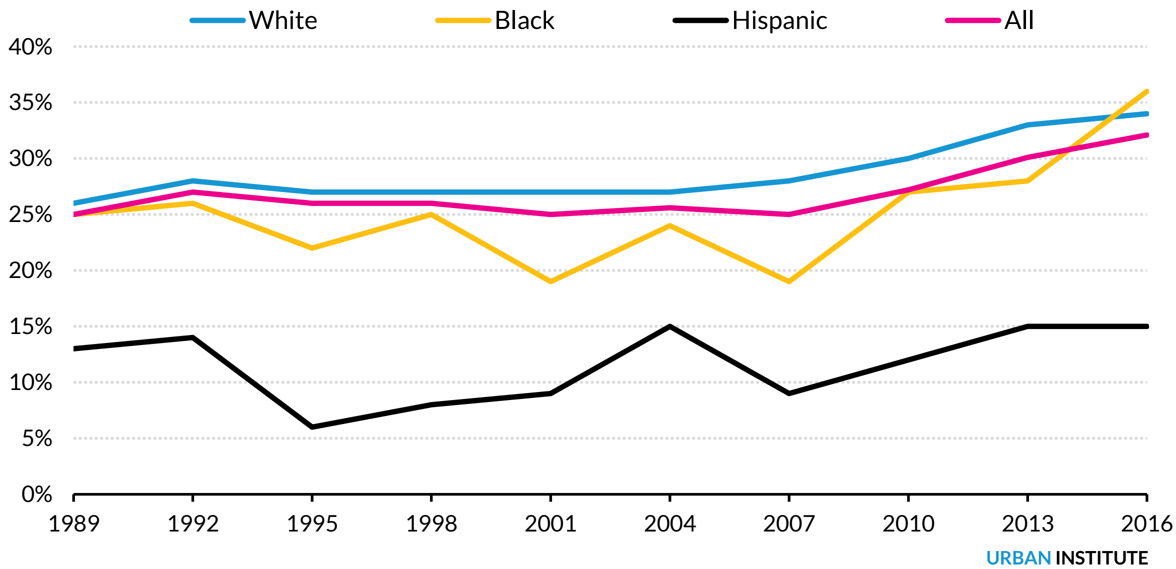
Impediments to extracting home equity can be attributed to factors that include an aversion to debt and a general desire to stay financially conservative (Kaul and Goodman 2017), a desire to leave a bequest or save for emergencies, fear of losing the home, product complexity, high costs, and fear of misinformation and fraud directed at the elderly.

Future of Senior Home Equity Lending

Although challenges to home equity extraction are real, there are several reasons lending volumes could grow in the future. The sheer size of the potential market is the biggest one. A second reason is the aging US population. The share of US homeowners ages 65 and older has been rising steadily in recent years, and the trend is expected to continue as more and more baby boomers enter retirement (figure 8).

FIGURE 8

Share of US Homeowners Ages 65 and Older, by Race



Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

Since 2007, this share has increased from 25 to 32 percent, with most of the growth since 2010. And the share will increase further as more Americans retire. The share of black homeowners ages 65 and older has nearly doubled since 2007, from 19 to 36 percent. The share for white homeowners increased from 28 to 34 percent, and the share for Hispanic homeowners increased from 9 to 15 percent. Even if we assume that future home equity extraction rates will remain at today's low levels, the aging of the population alone will expand this market.

In addition, the share of senior homeowners with a first mortgage and their median mortgage balance has increased in recent decades. Forty-one percent of homeowners ages 65 and older had a mortgage on their primary residence compared with 21 percent in 1989. The median outstanding debt has risen from $16,793 to $72,000. Figure 9 shows the breakdown by age for these metrics. Many households carrying mortgage debt into retirement will likely not be able to afford monthly payments and could access liquidity and smoothen consumption with a reverse mortgage.

FIGURE 9A

Share of Elderly Homeowners with a Mortgage

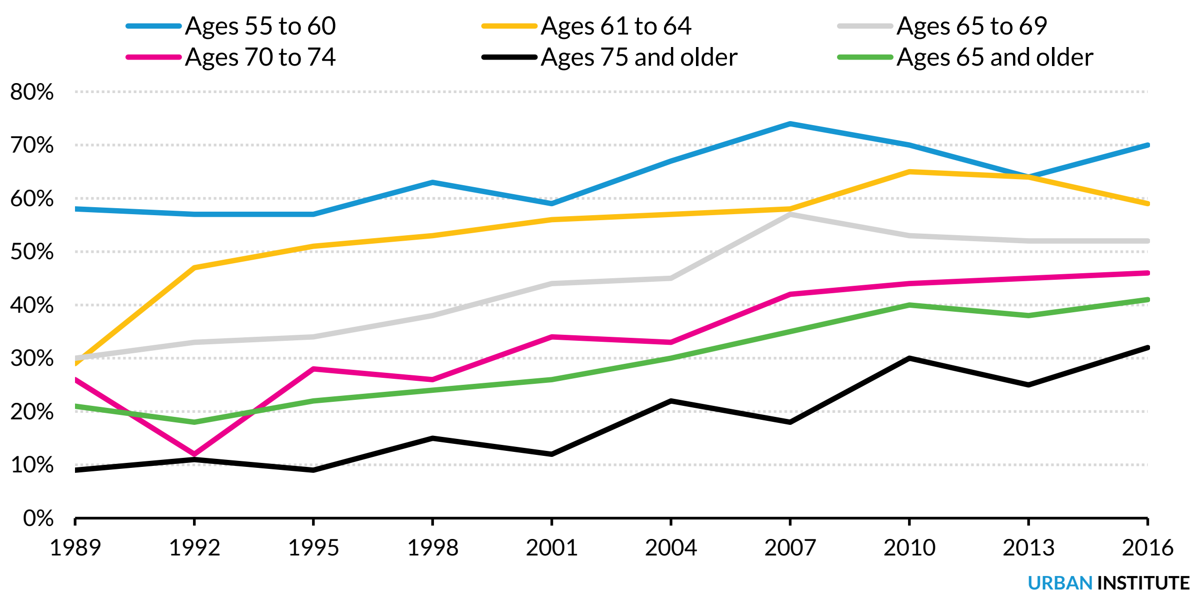
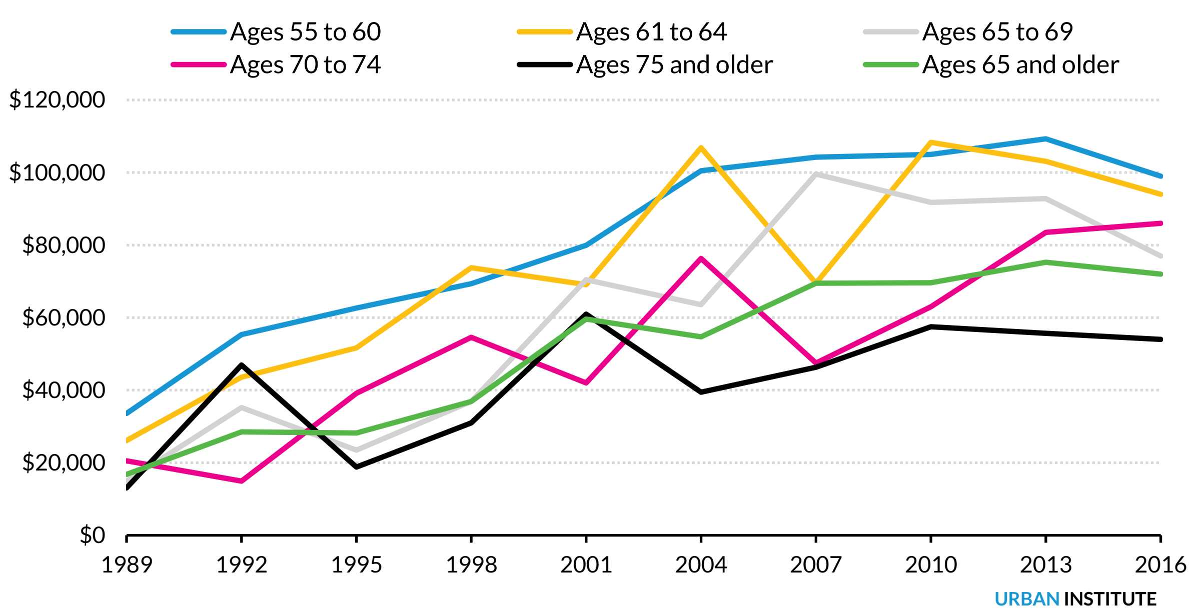


FIGURE 9B

Median Mortgage Amount for Elderly Homeowners with a Mortgage



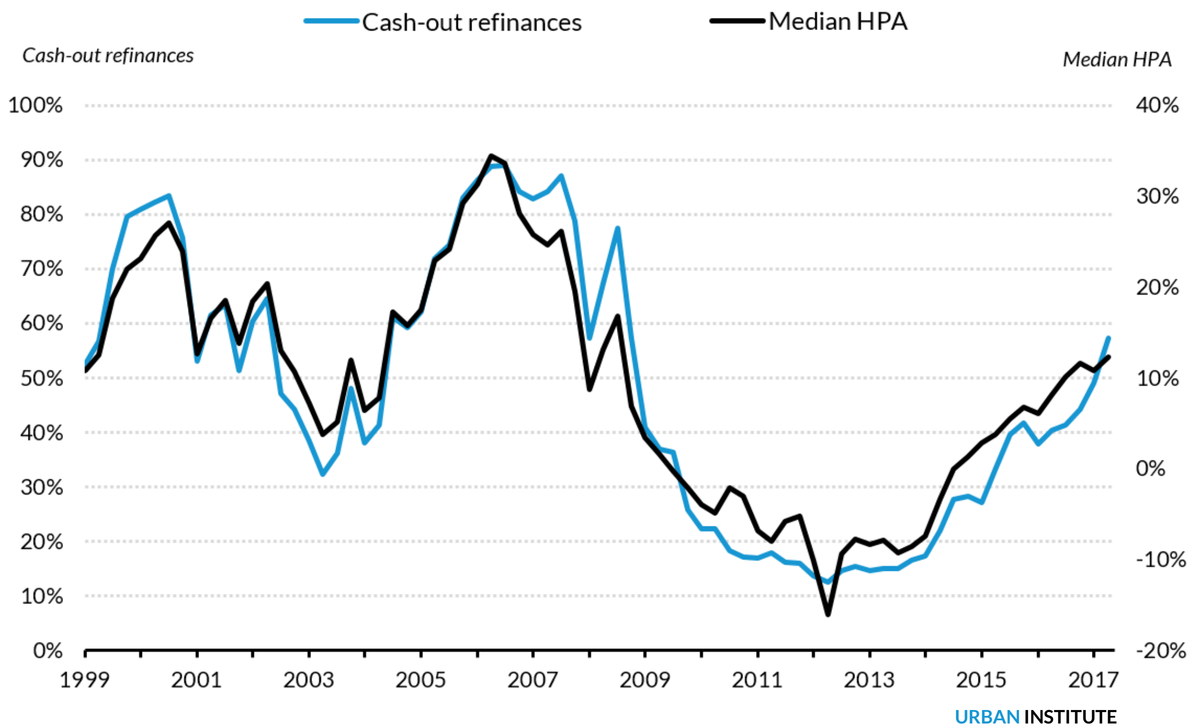
Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

Note: 2016 constant dollars.

A third reason is that home price appreciation is often associated with increased home equity extraction, and developments in the cash-out refinance market indicate this is happening. Even though cash-out refinance volumes contracted during the housing crisis as households lost equity wealth, lending volumes have improved since. Figure 10 shows the close relationship between the cash-out refinance share and home price appreciation. It illustrates the cash-out refinance share versus the median appreciation of refinanced properties. As home prices increase, the share of cash-out refinances increases.

FIGURE 10

Cash-Out Refinances Dominate when House Price Growth Is Strong



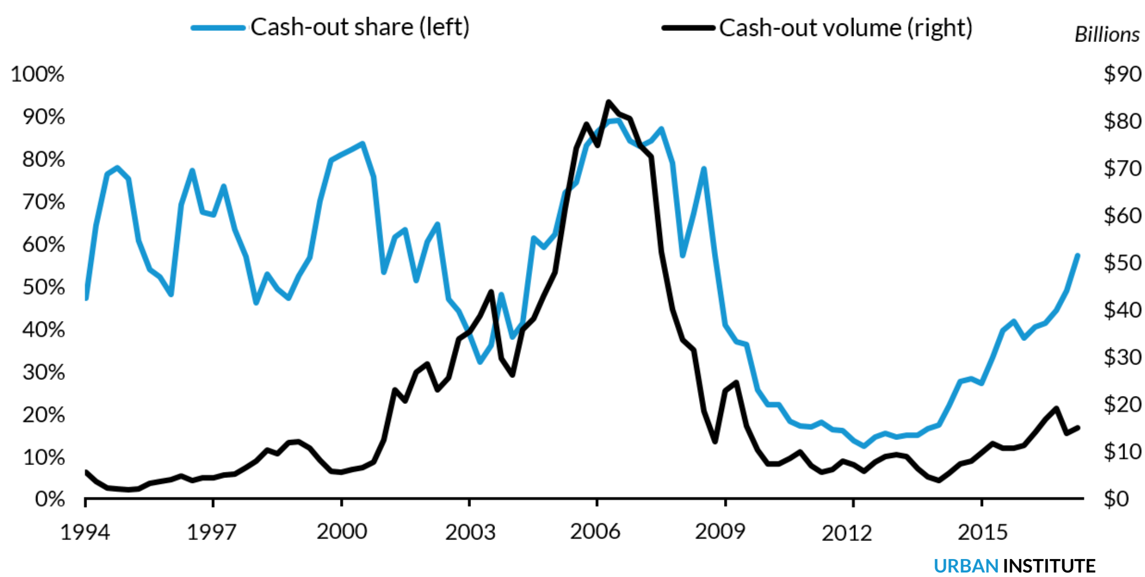
Source: "Quarterly Refinance Statistics," Freddie Mac, accessed November 2, 2017, http://www.freddiemac.com/research/datasets/refinance-stats/.
Note: HPA = home price appreciation.

According to Freddie Mac's quarterly refinance statistics, the share of prime conventional refinances that resulted in a loan amount at least 5 percent greater than the original loan's unpaid principal balance increased to 57 percent in the second quarter of 2017.[4] This share was close to 90 percent in 2006 at the peak of the bubble (figure 11), but the subsequent bust caused a sharp contraction in cash-out refinance activity. By 2012, the cash-out refinance share had fallen to 10 percent.

This improvement is less dramatic when looking at cash-out refinance volume. Although volume has improved in recent years, the recovery has been weaker than for the cash-out share. The cash-out refinance share varies partly because borrowers' motivations change with interest rates. When rates are low, the primary goal of refinancing is to save money by reducing the monthly payment. The share of cash-out refinances tends to be small during such periods. But when rates are high, borrowers have no incentive to refinance for payment reduction. Borrowers who refinance when rates are high tend to be driven more by their desire to cash out, causing the cash-out share to be higher. Looking at the cash-out volume along with the cash-out share provides a fuller picture of cash-out refinance activity. There is clear, but undramatic, improvement.

FIGURE 11

Cash-Out Refinance Share of Prime Conventional Refinances and Cash-Out Refinance Volume



Source: "Quarterly Refinance Statistics," Freddie Mac, accessed November 2, 2017, http://www.freddiemac.com/research/datasets/refinance-stats/.

Similarly, after contracting significantly during the housing crisis, HECM lending volume has stabilized. Home Equity Conversion Mortgage endorsements began increasing substantially in the early- to mid-2000s as house prices rose rapidly, peaking at 114,700 HECMs in 2009. As house prices fell during the housing bust, the endorsement count was cut in half to about 55,000 by 2012. Since then, HECM endorsements have consistently remained between 50,000 and 60,000 a year. As more US homeowners retire and as they accumulate more equity, the potential market for reverse mortgages and home equity lending will expand. Exactly how much will, to some extent, depend on the industry and policymakers' ability to ease barriers to equity extraction (Kaul and Goodman 2017).

Conclusion

Home equity extraction can be useful for seniors who lack sufficient funds to live comfortably during retirement. This report shows that millions of US households lack adequate income and savings but possess a significant amount of home equity wealth. For these households, liquefying a portion of their home equity by converting it into cash could allow them to pay back debt to eliminate or reduce monthly debt payment burden, or boost household income. This is especially true for homeowners with very low income and savings. Despite this, 2016 SCF and HRS data show that home equity extraction rates for seniors are low.

But there are reasons to expect senior home equity lending volumes to rise as more Americans retire. The elderly US population has increased, and the trend is expected to continue. Today's seniors are also more likely to carry first-mortgage debt into retirement and have higher mortgage balances than their predecessors. They may therefore have a stronger need to tap into their home equity than prior generations did.

Appendix. Key Wealth Measures by Distribution of Ratio of Home Equity to Net Worth, by Race

TABLE A.1

Ratio Less Than 25 Percent

	Home equity ($)	Net worth ($)	Income ($)	Liquid net worth ($)
White	160,000	1,210,000	93,163	633,000
Black	33,000	273,800	70,885	157,200
Hispanic	121,000	1,615,010	177,110	1,192,340
Other	250,000	1,284,000	123,542	740,000
All	146,000	1,109,500	94,175	568,400

TABLE A.2

Ratio between 25 and 50 Percent

	Home equity ($)	Net worth ($)	Income ($)	Liquid net worth ($)
White	165,000	472,600	59,037	232,000
Black	72,000	186,950	75,948	100,950
Hispanic	5,000	12,140	17,215	1,440
Other	202,000	676,100	79,897	411,000
All	165,000	466,800	61,771	226,070

TABLE A.3

Ratio between 50 and 75 Percent

	Home equity ($)	Net worth ($)	Income ($)	Liquid net worth ($)
White	160,000	272,000	48,607	75,430
Black	72,300	122,100	22,278	12,900
Hispanic	87,000	137,200	36,455	39,100
Other	140,000	249,000	34,430	45,200
All	150,000	239,100	44,556	63,000

TABLE A.4

Ratio between 75 and 90 Percent

	Home equity ($)	Net worth ($)	Income ($)	Liquid net worth ($)
White	135,000	151,000	27,341	9,000
Black	100,000	124,100	27,341	14,890
Hispanic	87,000	107,180	40,506	700
Other	100,000	125,550	30,379	6,600
All	111,000	134,100	27,341	8,050

TABLE A.5

Ratio More Than 90 Percent

	Home equity ($)	Net worth ($)	Income ($)	Liquid net worth ($)
White	145,000	140,210	29,367	200
Black	70,000	68,970	24,303	-470
Hispanic	136,000	133,700	30,379	1,200
Other	95,000	102,000	18,228	1,340
All	114,000	113,600	28,354	180

Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances. See Jesse Bricker et al., *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

Notes

1. US Census Bureau, "Quarterly Residential Vacancies and Homeownership, Third Quarter 2017," press release CB17-170, October 31, 2017, https://www.census.gov/housing/hvs/files/currenthvspress.pdf.
2. The ratio of home equity to net worth for each race is calculated by taking the median of the ratios at the household level.
3. Liquid net worth is a measure of on-hand cash or savings that can be converted to cash quickly. We calculate liquid net worth as financial assets minus student loans, installment loans, credit card debt, and other debt.
4. "Quarterly Refinance Statistics," Freddie Mac, accessed November 2, 2017, http://www.freddiemac.com/research/datasets/refinance-stats/.

References

Bricker, Jesse, Lisa J. Dettling, Alice Henriques, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, Sarah Pack, et al. 2017. *Changes in US Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances*. Washington, DC: Board of Governors of the Federal Reserve System.

Butrica, Barbara A., Karen E. Smith, and Howard M. Iams. 2012. "This Is Not Your Parents' Retirement: Comparing Retirement Income across Generations." *Social Security Bulletin* 72 (1): 37–58.

Fannie Mae. 2016. "Older Homeowners: Accessing Home Equity in Retirement. National Housing Survey, Topic Analysis: Q2 2016." Washington, DC: Fannie Mae.

Favreault, Melissa M., Richard W. Johnson, Karen E. Smith, and Sheila R. Zedlewski. 2012. "Boomers' Retirement Income Prospects." Washington, DC: Urban Institute.

Helman, Ruth, Craig Copeland, and Jack VanDerhei. 2015. *The 2015 Retirement Confidence Survey: Having a Retirement Savings Plan a Key Factor in Americans' Retirement Confidence*. Washington, DC: Employee Benefit Research Institute.

Johnson, Richard W., and Corina Mommaerts. 2009. "Are Health Care Costs a Burden for Older Americans?" Washington, DC: Urban Institute.

———. 2010. *Will Health Care Costs Bankrupt Aging Boomers?* Washington, DC: Urban Institute.

Kaul, Karan, and Laurie Goodman. 2017. *Seniors' Access to Home Equity: Identifying Existing Mechanisms and Impediments to Broader Adoption*. Washington, DC: Urban Institute.

Moulton, Stephanie, Samuel Dodini, Donald R. Haurin, and Maximilian D. Schmeiser. 2015. *How House Price Dynamics and Credit Constraints Affect the Equity Extraction of Senior Homeowners*. Washington, DC: Federal Reserve Board, Divisions of Research and Statistics and Monetary Affairs.

Moulton, Stephanie, Donald R. Haurin, and Wei Shi. 2015. "An Analysis of Default Risk in the Home Equity Conversion Mortgage (HECM) Program." *Journal of Urban Economics* 90:17–34.

Munnell, Alicia H. 2014. "401(k)/IRA Holdings in 2013: An Update from the SCF." Chestnut Hill, MA: Center for Retirement Research at Boston College.

Munnell, Alicia H., Wenliang Hou, and Anthony Webb. 2014. "NRRI Update Shows Half Still Falling Short." Chestnut Hill, MA: Center for Retirement Research at Boston College.

Munnell, Alicia H., and Annika Sundén. 2005. "Social Investing: Pension Plans Should Just Say 'No.'" In *Pension Fund Politics: The Dangers of Socially Responsible Investing*, edited by Jon Entine, 13–55. Washington, DC: American Enterprise Institute.

Poterba, James, Steven Venti, and David Wise. 2011. "The Composition and Drawdown of Wealth in Retirement." *Journal of Economic Perspectives* 25 (4): 95–118.

Smith, Karen, Mauricio Soto, and Rudolph G. Penner. 2009. *How Seniors Change Their Asset Holdings during Retirement*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

VanDerhei, Jack. 2011. "A Postcrisis Assessment of Retirement Income Adequacy for Baby Boomers and Gen Xers." Washington, DC: Employee Benefit Research Institute.

Venti, Steven F., and David A. Wise. 2004. "Aging and Housing Equity: Another Look." In *Perspectives on the Economics of Aging*, edited by David A. Wise, 127–80. Chicago: University of Chicago Press.

About the Authors

Laurie Goodman is codirector of the Housing Finance Policy Center at the Urban Institute. The center provides policymakers with data-driven analyses of housing finance policy issues they can depend on for relevance, accuracy, and independence. Before joining Urban in 2013, Goodman spent 30 years as an analyst and research department manager at several Wall Street firms. From 2008 to 2013, she was a senior managing director at Amherst Securities Group LP, a boutique broker-dealer specializing in securitized products, where her strategy effort became known for its analysis of housing policy issues. From 1993 to 2008, Goodman was head of global fixed income research and manager of US securitized products research at UBS and predecessor firms, which were ranked first by *Institutional Investor* for 11 straight years. Before that, she was a senior fixed income analyst, a mortgage portfolio manager, and a senior economist at the Federal Reserve Bank of New York. Goodman was inducted into the Fixed Income Analysts Hall of Fame in 2009. Goodman serves on the board of directors of the real estate investment trust MFA Financial, is an adviser to Amherst Capital Management, and is a member of the Bipartisan Policy Center's Housing Commission, the Federal Reserve Bank of New York's Financial Advisory Roundtable, and Fannie Mae's Affordable Housing Advisory Council. She has published more than 200 journal articles and has coauthored and coedited five books. Goodman has a BA in mathematics from the University of Pennsylvania and an MA and PhD in economics from Stanford University.

Karan Kaul researches topical housing finance issues to highlight the market impact of ongoing regulatory, industry, and related developments. He is also responsible for monitoring and reporting on mortgage market trends and current events weekly. He brings a deep understanding of key reform issues, political landscape surrounding reform, and pros and cons of different approaches concerning their impact on mortgage rates, credit availability, private capital, and other factors. He holds a bachelor's degree in electrical engineering and a master's degree in business administration from the University of Maryland, College Park.

Jun Zhu is a senior research associate in the Housing Finance Policy Center. She designs and conducts quantitative studies of housing finance trends, challenges, and policy issues. Before joining Urban, Zhu was a senior economist in the Office of the Chief Economist at Freddie Mac, where she conducted research on the mortgage and housing markets, including default and prepayment modeling. She was also a consultant to the Treasury Department on housing and mortgage modification issues. Zhu received her PhD in real estate from the University of Wisconsin–Madison.

Statement of Independence

2100 M Street NW
Washington, DC 20037

www.urban.org